

Message Text

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ACTION EB-07

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SUBJECT: PNOC SEEKS PART OWNERSHIP OF GOODYEAR

1. ON FEBRUARY 19, IB (RPT IB) THOMSEN, PRESIDENT, GOODYEAR INTERNATIONAL, ACCOMPANIED BY OTHER GOODYEAR OFFICIALS, CALLED ON AMBASSADOR TO INFORM HIM OF OVERTURES MADE BY PNOC PRESIDENT GERONOMO VELASCO TO BUY SHARE OF GOODYEAR PHILIPPINES. VELASCO/PNOC INTEREST APPEARS TWOFOLD: (1) TO ACQUIRE OWNERSHIP OF MANUFACTURING FACILITY FOR SUPPLY OF TIRES TO PETRON, FOR WHICH MAJOR SHARE OF BUSINESS IS SALE OF TIRES BOTH THROUGH TIS OWN NETWORK OF SERVICE STATIONS AND TO GOP AS LATTER'S SOLE SUPPLIER; AND (2) TO "PHILIPPINIZE"GOODYEAR, WHICH IS THE ONLY ONE OF THE THREE TIRE MANUFACTURERS HERE (OTHERS ARE GOODRICH AND FIRESTONE) WHICH IS ONE HUNDRED PERCENT FOREIGN OWNED. (GOODYEAR OFFICIAL HAD EARLIER TOLD EMBOFF THAT VELASCO HAD SEVERAL TIMES COMMENTED TO EFFECT THAT "TIMES HAVE CHANGED", WHILE PRESIDENT MARCOS HAD ONCE TOLD GOODYEAR BOARD CHAIRMAN THAT 100 PERCENT FOREIGN-OWNED COMPANIES ARE THINGS OF PAST.)

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2. THOMSEN TOLD AMBASSADOR THAT HE AND HIS GROUP PLANNED TO MEET WITH VELASCO LATER THAT DAY. THEY HAD REASON TO BELIEVE VELASCO WOULD SEEK 40 PERCENT OWNERSHIP ON BEHALF OF PNOC. (NOTE: ALTHOUGH SHORT OF MAJORITY OWNERSHIP, THIS WOULD GIVE PNOC BETTER THAN THE ONE-THIRD INTEREST NECESSARY TO BLOCK BOARD PROPOSALS WITH WHICH IT DID NOT AGREE.) THOMSEN SAID GOODYEAR'S INITIAL POSITION WOULD BE TO RESIST SALE OF ANY INTEREST TO PNOC, WITH FALLBACK POSITION OF CONSIDERING OFFER TO PURCHASE UP TO 25 PERCENT ON ITS MERITS AS A BUSINESS TRANSACTION. (NOTE: PRICE WOULD BE BETWEEN 30 AND 35 MILLION PESOS.) IN NO CASE WOULD THEY CONSIDER SALE OF GREATER PORTION OF OWNERSHIP. THOMSEN FRANKLY EXPECTED VELASCO TO INSIST ON 40 PERCENT. HE DID NOT KNOW WHAT CONSEQUENCES OF SUCH AN IMPASSE WOULD BE. VELASCO COULD FIND WAYS TO MAKE LIFE DIFFICULT FOR GOODYEAR, OR PERHAPS THE INDUSTRY AS A WHOLE, OR HE COULD INVITE A FOURTH MANUFACTURER (PERHAPS JAPANESE) INTO THE PHILIPPINES. IN THOMSEN'S OPINION, THE LOCAL MARKET IS NOT LARGE ENOUGH FOR FOUR PRODUCERS, WHICH WILL IN ITSELF CREATE DIFFICULTIES. NEVERTHELESS, GOODYEAR IS PREPARED TO ACCEPT THESE CONSEQUENCES.

3. ON FEBRUARY 25, GOODYEAR REPRESENTATIVE INFORMED EMBOFF THAT CONVERSATIONS HAD GONE AS EXPECTED; ALTHOUGH PLEASANT IN TONE, RESULT WAS IMPASSE. GOODYEAR REFUSED TO GO BEYOND 25 PERCENT WHILE VELASCO INSISTED ON 40 PERCENT. VELASCO ULTIMATELY ASKED THOMSEN TO THINK MATTER OVER, CONSULT WITH HIS BOARD, AND INFORM HIM OF RESULTS SUCH RECONSIDERATION. GOODYEAR REPRESENTATIVE SAID HE FORESAW NO POSSIBILITY THAT COMPANY WILL CHANGE ITS MIND AND IS NOW WAITING FOR NEXT MOVE FROM VELASCO.

4. COMMENT: MOVE IS LOGICAL FOR GOP AND VELASCO. ALTHOUGH GOODYEAR IS NOT UNIQUE, THERE ARE NOT MANY WHOLLY OWNED FOREIGN SUBSIDIARIES HERE. ASSOCIATION WITH TIRE COMPANY IS SIMILARLY NATURAL FOR COMPANY LIKE PNOC, WHICH WOULD ALSO LIKE SHARE OF GOODYEAR PROFITS TO OFFSET PETROPHIL LOSSES. OUTLOOK IS UNCLEAR. VELASCO CANNOT LOOK TO GOODRICH OR FIRESTONE, PHILIPPINE OWNERSHIP OF WHICH IS LIMITED OFFICIAL USE

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SIGNIFICANT, AND THESE COMPANIES COULD NOT BE EXPECTED TO REDUCE U.S. OWNERSHIP TO LESS THAN 50 PERCENT. HIS OPTIONS APPEAR TO BE EITHER PRESSURE TACTICS OR AN ADDITIONAL FACTORY, OR POSSIBLY BOTH; IT WOULD BE UNCHARACTERISTIC FOR HIM TO DROP THE MATTER.
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